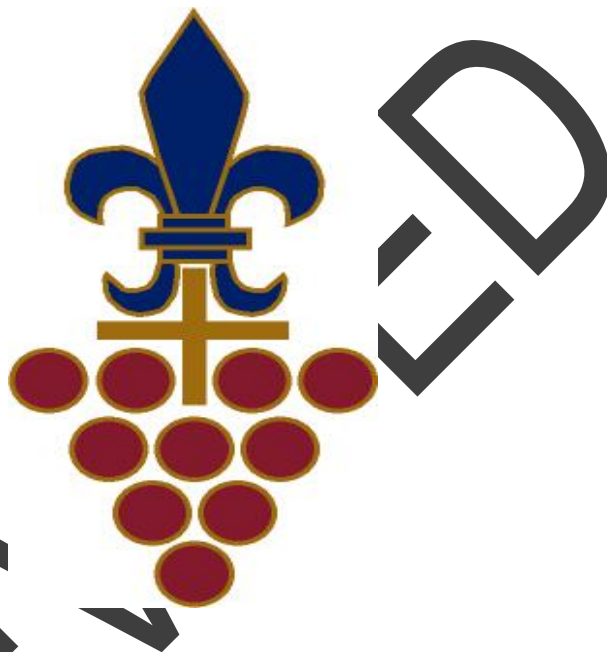




APPENDIX 18

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STELLENBOSCH MUNICIPALITY



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CASH MANAGEMENT AND INVESTMENT POLICY

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STELLENBOSCH MUNICIPALITY

CASH MANAGEMENT AND INVESTMENTS POLICY

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PREAMBLE

Whereas section 13 of the Local Government: Municipal Finance Management Act, 2003 (No. 56 of 2003) determines that a municipality must introduce an appropriate and effective cash management and investment arrangement;

and whereas a bank, in accordance with the provisions of section 13 of the Act, has to disclose details regarding a municipalities' investments;

and whereas councilors and officials, as trustees of public funds have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible;

now therefore the Stellenbosch Municipality adopt the cash and investment management policy set out in this document.

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1. LEGAL FRAMEWORK

- a) Legislation – local government: Municipal Finance Management Act 56 of 2003 (As amended)
- b) Treasury regulations in terms of Section 13(1) of the Act (As amended)

In this policy the Act refers to the MFMA.

2. OBJECTIVES

- a) To maximize returns from authorized investments, consistent with the secondary objective of minimizing risk
- b) To ensure compliance with all legislation governing the investment of funds.
- c) To maintain adequate liquidity to meet cash flow needs
- d) To undertake the investment of funds not immediately required for operational purposes in a prudent financial manner.
- e) To ensure diversification of permitted investment.

3. CASH MANAGEMENT POLICY

3.1 General Policy

It is recognised that from time to time, Council has cash flow surpluses and borrowing requirements due to daily receipts and payments.

Council maintains a daily cash position summary and a yearly cash flow projection is prepared during the annual planning process and is updated monthly. This determines Council's borrowing requirements and surpluses for investment. Cash invested "outside" the bank account is covered by section 4 of this policy.

3.2 Bank Accounts

Council operates one primary bank account for its day to day operational activity requirements and two secondary accounts specifically for service charges and revenue derived from Fines.

All monies due to Council and due by Council emanating from Council activities must pass through this primary account, therefore secondary accounts are swept daily and all balances are transferred to the primary bank account.

3.2.1 Revenue Management

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Revenue Management Section 64 of MFMA clearly states that all moneys received must be promptly deposited in the municipality's primary and other bank account;

- all revenue received by the Municipality, including revenue received by any collecting agent on its behalf, is recorded at least on a weekly basis
- all monies collected by the Municipality on behalf of another organ of state must be transferred to that organ of state at least on a weekly basis.

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3.2.2 Cheque Management

Cheques are printed in batch format. To prevent the removing of cheques, cheques are delivered in sealed boxes where strict control is exercised over the numerical sequence of cheques on the expenditure system by means of a cheque register.

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3.2.3 Delegation/Rights

The incumbents of the following posts are authorized to sign cheques on behalf of Council

3.2.3.1 Cheques

A-Signatories:

Chief Financial Officer
Manager: Budget Office
Manager: Treasury Office
Head: Expenditure Management
Head: Revenue and Valuations
Head: Supply Chain Management
Head: Budgeting and Costing
Head: Financial Statements, Compliance and Reporting
VAT and Accounting Specialist

B-Signatories:

Chief Accountant: Consumer Accounts and Valuations
Senior Accountant: Cash Management and Credit Control
Senior Accountant: MFMA Reporting and Compliance
Senior Accountant: Financial Statements and Reconciliations
Senior Accountant: Financial Asset Management
Senior Accountant: Expenditure

Each cheque needs to be signed by at least two A-signatories, or one A-signatory and one B signatory.

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3.2.3.2 Electronic Funds Transfer (EFT)

A-Signatories: Chief Financial Officer
Manager: Budget Office
Manager: Treasury Office
Head: Expenditure Management
Head: Revenue and Valuations
Head: Supply Chain Management
Head: Budgeting and Costing
Head: Financial Statements, Compliance and Reporting
VAT and Accounting Specialist

B-Signatories: Chief Accountant: Consumer Accounts and Valuations
Senior Accountant: Cash Management and Credit Control
Senior Accountant: MFMA Reporting and Compliance
Senior Accountant: Financial Statements and Reconciliations
Senior Accountant: Financial Asset Management
Senior Accountant: Expenditure

Each electronic payment needs to be authorized by at least two A-signatories, or one A-signatory and one B signatory.

3.3 Bank Overdraft

3.3.1 Barring the fact that Council has an approved overdraft facility with its primary banker for possible unanticipated short-term cash flow shortfall, its general policy is to avoid going into overdraft.

Short-term debt is incurred based on expected income and must be repaid within the same financial year. (Section 45 of the MFMA)

3.3.2 Any overdrawn bank account at any date must be reported without avail to Council supported by reasons therefore.

3.3.3 Any short term facility that requires review must first be approved by the Accounting Officer.

4. CASH MANAGEMENT PROCEDURES

4.1 Internal Controls

The supervisor and/or Accountant do a monthly audit on the cashier floats, manual receipt books and the compilation of daily cash-up and banking documents.

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4.2 Issuing of Receipts

The cashier will only issue an official enumerated receipt when a client pays his/her municipal account in full or partially.

4.3 Cancellation of Receipts

An official enumerated receipt will only be cancelled whilst the client is still at the cash office and only for the following reasons;

- a) cashier made an error
- b) client made an error

The cashier will re-issue a correct receipt and the cancelled receipt will be signed by the incumbent and the supervisor. In cases where the client wants his money back a prescribed official document must be completed and signed by the Client, Cashier and the Supervisor stating the reason(s) for cancelation.

4.4 Cash Balancing

After the end of each shift, the cashier will count the monies received, and do a daily end of day cashier procedure. The supervisor will then re-count the money to ensure that the cashier's daily takings balances with the supervisors end of day totals. If the cashier is short he/she will then pay the monies in immediately, if there is a surplus the cashier will receipt the surplus on the same day.

The cashier will do a final end of day procedure when he/she balances and the supervisor will do a receipting end of day shut-down procedure.

4.5 Deposit Books

Each cashier has an enumerated deposit book, as each pay point has a number. The senior clerk: cashier order books from the bank when needed.

4.6 Other payment methods

4.6.1 Direct Deposits and ACB

Direct deposits can be made into municipal bank account via the Internet or by deposit slip via their bank, using municipal account number as reference. This information is extracted and uploaded on a daily basis from the bank and is then credited against the client's accounts. Accounts are also paid by means of a debit order (ACB) payment.

4.6.2 3rd Party

Payment can be made at any EasyPay pay point. This information is extracted and uploaded on a daily basis from Easy Pay and credited against the client's accounts.

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4.6.3 Cheque Deposit (Only Bank Guaranteed cheques will be accepted)

The cashier will issue an official enumerated receipt when a client pays his/her municipal account with a Bank Guaranteed cheque. Bank Guaranteed Cheques that are dropped into cheque deposit box at the municipal office are taken out of the box on a daily basis, receipted by the cashier and the receipt is posted to client on request.

4.6.4 Mailed Bank Guaranteed Cheques

Bank Guaranteed Cheques attached to the municipal account are collected from the post office on a daily basis and is recorded in a register at the Records department, it is then collected by the Supervisor: Cashiers who will write all the Bank Guaranteed cheques up in a register, The supervisor will hand it to the cashier to be receipted and the receipt details will be entered in the register.

4.6.5 Returned Cheques and Debit Orders

If cheques and debit orders are returned marked "Refer to Drawer" the full balance will immediately become payable.

4.6.5.1 That the cost that is payable by the consumer must be equal to the cost that has been approved by Council in all cases where a cheque bears the status of "Refer to Drawer".

4.6.5.2 Bank charges in this regard will be payable by the consumer. In the event of a customer having tendered a "refer to drawer cheque" for the second time, no further cheque will be accepted from him/her, excluding bank guarantee cheques.

4.6.5.3 A cashier must not accept a cheque that was issued by a Consumer in the event the cheque bears the status as a Posted Dated Cheque, Altered Cheque or an Unsigned Cheque. In the event this occurs and notwithstanding the aforementioned provisions, all Bank Charges that would arise and be incurred by Stellenbosch municipality will then be recovered from the said Cashier. The cashier will be required to pay back the Bank costs as approved by Council within 24 hours for recovery of the said amount.

4.6.6 Private Money

No municipal employee is allowed to:

- Use Council's cash funds at any stage to be replaced at a later stage again.
- Use his/her own money as cashier float
- Change an official's cheque for cash

- Safeguard private money amongst Council's cash (e.g. Cashier drawers, petty cash boxes, safes etc.)

5. INVESTMENT POLICY

5.1 General Policy

Generally Council will invest surplus funds with deposit taking institutions registered in terms of the Bank's Act, 1990 (Act 94 of 1990) for terms not exceeding one year in anticipation of cash flow expectations. From time to time, with prior Executive Mayoral Committee approval, investments can exceed 1 [one] year and be made at other institutions/instruments as approved in the National Treasury regulations from time to time.

5.2 Permitted Investments

The Account Officer must ensure that only the following investment types are utilized in terms of sec 6 of the Municipal Investment Regulations (No. R. 308) dated 1 April 2005:

- Securities issued by national government.
- Listed corporate bonds with an investment grade rating from a recognized credit rating agency.
- Deposits with banks registered in terms of the Banks Act (Act 45 of 1984).
- Deposits with the Public Investment Commissioners.
- Deposits with the Corporation for Public Deposits.
- Banker's acceptance certificate or negotiable certificates of deposits of registered banks.
- Guaranteed endowment policies with the intention of establishing a sinking fund.
- Repurchase agreements with registered banks.
- Municipal bonds issued by a municipality.
- Any other investment type as identified by the Minister of Finance in consultation with the Financial Services Board.

5.3 Diversification

Council will only make investments, as prescribed by Section 6 of the Municipal Investment Regulations, with approved institutions which have a rating as defined per Appendix A. Not more than ~~35~~50% of available funds will be placed with a single institution. (Excluding investments made per Executive Mayoral Committee resolution).

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5.4 Investment Managers

5.4.1 External Investment Managers

Where the above means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act 55 of 1989), and Stock Exchanges Control Act, 1985 (Act 1 of 1985), contracted by a municipality or municipal entity to-

- a) advise it on investments;
- b) manage investments on its behalf; or
- c) advise it on investments and manage investments on its behalf

The external investment manager will be appointed in terms of SCM policy and a service level agreement will govern the functions and responsibility of the service provider. All investments made by the external investment manager on behalf of the Council of Stellenbosch must be made within the ambit of this policy and with National Treasury's investment regulations.

5.4.2 Internal Investment Manager

All investments made by the internal investment manager shall be in accordance with section 5.4 of this policy.

5.4.3 If the investment manager receives any fee, commission or other reward, the investment manager must declare such payment to the council by way of a certificate disclosing full details of the payment.

5.5 Internal controls over investments

5.5.1 Delegations

5.4.1.1 In terms of section 60(2) of the MSA, the council may only delegate to the Municipal manager the power to make decisions on investments on behalf of the municipality.

5.5.1.2 In terms of section 79 of the Act, the Accounting Officer has delegated to the Chief Financial Officer (CFO), in writing, his duty under section 65(2)(h) to manage the councils available working capital effectively and economically in terms of the prescribed cash management and investment framework.

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5.5.2 Obtaining quotations and concluding deals

Writing mandates, signed by the CFO and MM, shall be issued to all investees with whom the Council of Stellenbosch invests funds setting out the following

5.5.2.1 Authorised dealers: name and particulars of the Councils officials who are authorised to transact investments deals with the investees;

5.5.2.2 Authorised signatories: name and particulars of the Councils officials who are authorised to sign written confirmations or any other correspondence in respect of investments transactions.

5.5.2.3 A dealing sheet, signed by an authorised dealer, shall be prepared in all instances for each individual investment, detailing the quotations received and the recommended investee. The CFO shall advice the MM to approve the transaction.

A written confirmation of the terms of each investment transaction shall be prepared, and signed off by the CFO and MM.

6. Ownership

All investments must be made in the name of the Council of Stellenbosch Municipality. Written proof of investments made must obtained from the institution where the investment is made and must be kept on file.

7. DUE CARE

In dealing with financial institutions, the following ethical principles must be observed:

7.1 The Chief Financial Officer and all staff in his/her directorate shall not accede to any influence by or interference from Councillors, investment agents, institutions or any other outsiders.

7.2 Under no circumstances may inducements to invest be accepted;

7.3 Interest rates quoted by one institution must not be disclosed to another institution; and

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7.4 The business ethics of any controlling body of which the relevant financial institution is a member must be observed by such institution or body at all times.

8. PERFORMANCE MEASUREMENT

Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective measures. The predominant subjective measure is the overall quality of treasury management information. The Chief Financial Officer has primary responsibility for determining this overall quality.

Objective measures include:-

- 6.1 Adherence to policy.
- 6.2 Timely receipt of interest income.

9. REPORTING

9.1 Reports

The following reports are produced:

REPORT NAME	FREQUENCY	PREPARED BY	RECIPIENT
Bank Balance report	Daily	Senior Clerk: Electronic Payments	Chief Finance Officer
Investments	Monthly	Head: Financial Statements, Compliance and Reporting	Manager: Budget Office Chief Finance Officer Council

10. ANNUAL REVIEW OF POLICY

This policy on investments will be reviewed annually or earlier if so required by legislation.

Any changes to the investment policy must be adopted by council and be consistent with the Act and any National Treasury regulations.

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The effective date of this policy was 1 July 2007 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.

APPENDIX A

LONG-TERM RATINGS - FITCH

AAA - Obligations which have the highest rating assigned by Fitch IBCA on its national rating scale for that country. This rating is automatically assigned to all obligations issued or guaranteed by the sovereign state. Capacity for timely repayment of principal and interest is extremely strong, relative to other obligors in the same country.

AA - Obligations for which capacity for timely repayment of principal and interest is very strong relative to other obligors in the same country. The risk attached to these obligations differs only slightly from the country's highest rated debt.

A - Obligations for which capacity for timely repayment of principal and interest is strong relative to other obligors in the same country. However, adverse changes in business economic or financial conditions are more likely to affect the capacity for timely repayment than for obligations in higher rated categories.

SHORT-TERM RATINGS - FITCH

F1 – Obligations assigned this rating have the highest capacity for timely repayment under Fitch Ratings Ltd national rating scale for that country, relative to other obligations in the same country. This rating is automatically assigned to all obligations issued or guaranteed by the sovereign state. Where issues possess a particularly strong credit feature, a “+” is added to the assigned rating.

F2 – Obligations supported by a strong capacity for timely repayment relative to other obligors in the same country. However, the relative degree of risk is slightly higher than for issues classified as ‘A1’ and capacity for timely repayment may be susceptible to adverse changes in business, economic or financial conditions.

F3 – Obligations supported by an adequate capacity for timely repayment relative to other obligors in the same country. Such capacity is more susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories.

LONG-TERM RATINGS – MOODY’S

AAA – Obligations rated “AAA” have the highest rating assigned by Moodys -Ratings. The capacity of the issuer to pay interest and repay capital is extremely strong, relative to other South African obligors.

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AA – Indicates very strong capacity of the issuer to pay interest and repay capital relative to other South African obligors.

A – Indicates strong capacity of the issuer to pay interest and repay capital, relative to other South African obligors, although it is slightly more susceptible to adverse changes in economic conditions and circumstances than debt in categories rated higher.

SHORT-TERM RATINGS – MOODY'S

A-1 – Indicates that the degree of safety regarding timely payment is either overwhelming or very strong, relative to other South African obligors. Issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.

A-2 – Indicates that capacity for timely payment on issues with this designation is strong, relative to other South African obligors.

A-3 – Indicates satisfactory capacity for timely payment, relative to other South African obligors. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.